

ACCOUNTING STANDARDS AND RULES – VOLUNTARY OR REGULATORY DETERMINATION?

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1.1 For obtaining a clear insight into current Dutch views on the subject submitted for discussion in this session of the Second Jerusalem Conference on Accountancy, one has to carry one's mind back to the last decades of the previous century. Then, the first accountants in the Netherlands, in exercising their profession, based themselves on a number of rules derived from experience gained in actual practice. Although already in those years the students had to pass through a systematic training provided by elder practitioners, this education implied no more than passing on to juniors the experience gained by the seniors. Any comparison with the then education for either physician or physicist is a lame one.

In the second decade of this century, however, - under the leadership of Limperg who in the twenties was appointed professor at the Amsterdam Municipal University - a group of junior and, in that period progressive, accountants felt this situation to be unsatisfactory. They urged the necessity of going beyond the application of a number of rules derived from experience gained in day-to-day practice. The main reason for their doubting the efficacy of such rules was their being apprehensive of a situation to which, in those days, attention was repeatedly given, viz. the conclusion that a profession which bases itself on empirical rules only, is never equipped to establish whether, in a given situation, application of *other* rules would have achieved a *better* result. The consideration of this group of accountants, and particularly those of Limperg, have resulted in the conclusion that, although empirical rules had provided a good starting-point for the accountancy profession, it primarily was in need of generally worded principles which could serve as generally applicable norms in the performance of the profession. Now that, since then, more than half a century has elapsed, it can be stated that the aspirations of those colleagues were well-founded. What they aimed at, and what since has been realised at the sacrifice of great efforts and force of conviction, is a sound and coherent set of principles, prepared on the basis of scientific analyses. Such generally applicable principles are engendered by systematically analysing the economic phenomena, occurring in the day-to-day practice of industry and trade; i.e. in such a manner that (i) the phenomena are traced to their source, and (ii) the interrelationship between the phenomena is explained. Once these analyses have been made, the search for *ad hoc* solutions according as certain phenomena occur can be limited appreciably.

This conclusion is not meant to imply that a search for *ad hoc* solutions should always be repudiated. I do propound, however, that any profession, and particularly an accountancy profession, which makes an extensive use of rules prepared to cover *ad hoc* situations is at a great risk. The phenomena occurring in industry and trade that confront the accountant, are of a multifarious and complex nature. Application of „rules” in the aforementioned

sense is not only at the risk, referred to above, of not the best rule being applied to the given economic phenomenon, it is also at the risk of such „rules” being not coherent, or even conflicting. Moreover, the accountancy profession is currently confronted with a phenomenon that supports my statement that Dutch accountants practising in the beginning of this century, acted rightly when searching for scientifically justified principles as a basis for their profession: Now that economic conditions show a speedier development than ever before - reference is made to the rate of inflation and to the changing social position of the enterprise and its management - there appears from international literature an ever increasing need of both industry and trade and the accountancy profession for a conceptual framework of accounting and reporting. In my opinion, this call is no more than a call for a scientific analysis aimed at establishing generally applicable principles for the day-to-day practice of accounting and reporting.

For a Dutch author it is extremely difficult to describe in comprehensible English how and why the accountancy profession developed as a sequel of the development of a certain science, to wit the economic theory of industry and trade, also pithily but, possibly, not quite correctly termed „business-economics”. This handicap is increased by the fact that, as far as I am aware, hardly ever, if at all, attempts have been made at a systematic development of accountancy as part of a scientific economic theory. For this reason I submit the following additional elucidation:

An accounting „rule” is a standard, based on the *experience* that the rule is generally *accepted* in economic and social life.

An accounting „principle” is a standard, based on a *scientific* (business-economic) *analysis* and, thus, generally *acceptable* in economic and social life.

Although in the Netherlands the „economic theory of industry and trade” or „business-economics” was primarily developed by accountants, this fact should not give rise to the conclusion that this theory is confined to accounting principles and auditing principles. The areas covered by it appear from the following list of chapters indicating its constituent parts:

- a. theory of the value in industry and trade;
- b. theory of the determination of costs as the basis for quoting selling prices;
- c. theory of the adequate financing of industry and trade;
- d. theory of the organisation of enterprises;
- e. theory of the determination of income and net equity;
- f. auditing theory;
- g. theory of the techniques of information and reporting.

1.2. For to-day’s topic „Accounting standards and rules, voluntary or regulatory determination” one of the above-mentioned chapters is of particular interest, viz. the theory of the determination of income and net equity. An extensive description of the development of this part of the theory would far exceed the size of this paper as determined by the organising

committee of this conference. Suffice it, therefore, to state some of its main features. One of the most significant conclusions from the analysis has resulted in the following general principle underlying the determination of income: *Profit is the increase in net equity during a past period - mostly a year - that can be distributed to the owners of an enterprise without impairing the continuity of the enterprise.* Starting from this principle, the theory has developed a number of principles governing more specific problems, e.g. valuation of fixed assets and of inventories, determination of contingent liabilities, valuation of participations. When the theory of the determination of income and net equity was worded for the first time - this was around 1930 - industry and trade in the Netherlands, to a material extent, were represented by enterprises, the common hallmark of which was identity of management and ownership. In this situation the funds needed by enterprises mainly come from two sources: profits, retained in the business and savings, made by the owners, whereas funds acquired from third parties - long-term and short-term loans and other liabilities - played a minor part only.

Thus, there is little reason for surprise that in that period the analysis resulted in a principle for the determination of income that aimed at maintaining the continuity of the enterprise; the less so since, under such conditions, financial means from third parties are available to a limited extent only. In the third decade of this century this principle of maintaining the continuity of the enterprise appeared to be of particular significance, when the serious economic crisis, which in those years made itself felt in the Netherlands as well, gave rise to external reasons for endangering the continuity of the enterprise and to a shrinking of the sources, supplying additional financial means. Under such circumstance a profit determination, that is primarily aimed at maintaining continuity, is a prerequisite for a workable economic theory. Although, according to current Dutch views, the theory attaches no longer such a primordial significance to maintenance of continuity, such maintenance still plays an important part in the considerations of both theorists and practitioners.

The foregoing exposition will undoubtedly induce the question of whether a theory, aimed at continuity of the enterprise, pretends more than application of its principles can effectuate. Rightly it may be observed that, ultimately, there is only one factor that determines the continuity of an enterprise, viz. its profitability. Later, i.e. after 1945, a more relative nature has been attributed to this one and only aim in that, when determining the profit, the continuity of the enterprise should be warranted *in the largest possible extent*. For achieving this, the theory of the determination of income and net equity has made use of the analyses and conclusions of another section of „business-economics“, viz. the theory of the value in industry and trade. By the indication „replacement value accounting“ reference is made to this internationally best-known section of „business-economics“ as developed in the Netherlands.

Adherence to the principles evolved in this section, when determining the income and net equity of an enterprise, warrants better the maintenance of

its continuity than whatever other accounting technique such as historical cost accounting or general purchasing-power accounting.

This may be explained by the following exposition of the most salient feature of the profit if it is determined in accordance with the principles laid down in replacement value accounting.

Within the framework of achieving the best presentation of the continuity of the enterprise, the theory of the determination of income and net equity has introduced the concept „stocks (inventories), permanently tied up in the business”. The main accounting principle in respect of such stocks is that an increase in their value should not be regarded as a part of the profit, but be tied up in the net equity („Revaluation account, unrealised”) *until or unless such stocks are of no significance for maintaining the continuity of the enterprise*, in which case such stocks are to be stated at their net realisable value.

What is stated above in respect of stocks tied up in the business applies to fixed assets as well, albeit that - contrary to increases in the value of stocks - the increases in the values of fixed assets are gradually realised according as the depreciation, calculated on the basis of the current value of fixed assets, is charged to income in the course of the remaining life of the assets taken as a whole. However, under the heading „Revaluation account, realised” all realised parts of increases in the value of fixed assets, that are indispensable for the continuity of the enterprise, remain tied up in its net equity.

1.3. The foregoing exposition which, necessarily, had to be brief, gives a skeleton survey of the development up to 1940 with respect to accounting principles in the Netherlands. It may be assumed that in 1940 a large number of Dutch accountants held the view that the conclusions arrived at in this section of „business-economics”, provided an efficacious basis for accounting and, thus, for internal and external reporting. However, the extent to which these conclusions were being adhered to, varied materially in practice in that, generally, in the years preceding the second world war, the principles developed in respect of stocks, tied up in the business, were adhered to a far greater extent than those relating to fixed assets. Although for both categories of assets the views underlying the principles are basically the same, this difference is still understandable, because in day-to-day practice application of the principles to fixed assets is far more difficult, due to their being replaced at far greater intervals than stocks, which implies that of the latter the replacement value is regularly known whereas this is not so in the case of fixed assets.

In the Netherlands, up to 1940, there were no statutory accounting standards or rules whatsoever except for one insignificant regulation in the Code of Commerce, governing the grouping of the items in the balance sheet. Up till then, neither the valuation of assets and liabilities, nor the determination of income was governed by any statutory regulation. It should be recognised that in those years the need for such a regulation was hardly, if at all, felt, owing to the fact that for the greater part of Dutch industry and

trade there was still an identity of management and ownership and, consequently, for that part there was no obligation to publicly render an account on the management's stewardship. As far as I am aware there has been no systematic discussion in those years on efficacious accounting principles, neither in the circles of employers, nor in those of employees.

When judging the foregoing historical survey up till 1940 it should be realised that, lacking a tax on income of enterprises, there was no reason for the fiscal authorities to be interested in accounting principles.

2.1. In the period from the end of the second world war till now, major changes have occurred in the structure of industry and trade as well as in the opinions on enterprises as constituent parts of economic and social life. As to the change in the structure of industry and trade the following is submitted for your consideration: Following, *inter alia*, post-war technological developments, many enterprises experienced a large need for funds that could not be met from the traditional sources (profits retained in the business and savings made by the owners). Moreover, for maintaining their relative position at the market, enterprises were often obliged to expand their business. This, again, increased the need for additional funds that could not be met by either the owners or the profitability of the enterprise. After the loss of the previous colony Indonesia, traditionally a dependable market for the Dutch industry, new and unknown markets had to be found and developed and, naturally, such activities can be better embarked upon by a large enterprise than by a smaller one. Finally, some fifteen years ago, Dutch industrial enterprises were confronted with a developing European Common Market and, consequently, with competition from far greater German and French enterprises.

These developments had various effects which, now independently and then combined, manifested themselves. Reference is made to

- (i) an appreciably expanding need for financial means;
- (ii) absorption of smaller enterprises by larger units, sometimes against shares issued by the latter, sometimes against cash which, for the large units, implied an increased need for financial means;
- (iii) amalgamation of a number of smaller units into one new enterprise that applies for a quotation at the Stock Exchange.

For the problem of accounting principles, the aforementioned structural developments since 1945 were of major significance in one respect: the markedly increased share in the financing taken by long-term and short-term loans made available by third parties, together with the increasing segregation of management and ownership, gave rise to an expansion of the duty to render an account on the management's stewardship up to an extent that, prior to 1940, could hardly be imagined in the Netherlands. Next to the till then prevailing aim of maintaining the continuity of the enterprise, the expansion of the aforementioned duty of management makes itself felt as an equivalent aim when determining income and net equity of the enterprise.

2.2. The structural development referred to above runs parallel to another

one which, for that matter, does not differ much in its effects from the former one, viz. the evolution in opinions held on the position of the enterprise in social and economic life. Whereas prior to 1940 enterprises were nearly exclusively regarded as a source of income for the suppliers of financial means, after 1945 much more attention has been directed to the enterprise as (i) a source of income for its employees and (ii) a constituent part of a larger social entity that, as such, makes the social product. These developments gave rise to not only a set of measures taken by the authorities and aimed at regulating the function of the enterprise as such a part of social and economic life, but also an increasing interest of the trade unions in the financial results of the management of the enterprise. The latter developments, which prior to 1940 were unimaginable, have led to one conclusion: Next to rendering a far more comprehensive account of its stewardship to shareholders, the management now is also obliged to report on the course of affairs of its enterprise to other interested constituents of social and economic life.

2.3. This paper would be incomplete if it did not report on the reactions in the Netherlands on the aforementioned developments, particularly in respect of accounting principles, by:

- (i) the organisations of employers and of employees;
- (ii) the Government.

Already in 1955 the Council of Dutch Employers Organisations (de Raad van Nederlandse Werkgeversverbonden) published a study under the title: „The annual report” (Het jaarverslag).

This report was published shortly after the end of World War II and, thus, it is only natural that the problem of reporting was prudently approached. A second report, however, was issued in the course of 1962 by the same Council and entitled „Reporting, rendering of an account and provision of information by the directors of limited liability companies”. For the problem exposed in this paper it is in particular the second part of the report, that deals with the (annual) report to shareholders, that deserves consideration. The report starts from the premiss that annual financial statements are to reflect the outcome of the management's stewardship during an elapsed period and that they should be adapted to the nature of the enterprise involved. The profit and loss account will have to provide an insight into the size and composition of the result achieved by the enterprise during the period under report, whereas the balance sheet will have to reflect the financial position of the enterprise as at the balance date, i.e. the size and composition of the shareholders' net equity, the funds supplied by third parties and the assets in which these means have been invested.

The principles underlying the determination of income and the valuation of assets and liabilities are to be explained in the notes to the financial statements. About the latter principles the Council is very explicit indeed. Since its pronouncement is of particular significance for the following comments on the Dutch statutory regulation concerning annual accounts of enterprises, that pronouncement is quoted in full below:

„It is urgently stressed that valuation of assets and liabilities and computation of results are such *that they comply with sound business-economic principles* (underlining v.Br.), which, in many cases, will imply to the concept of replacement value is followed in some form or other. This pronouncement is based on the Council's conviction that, generally, it is on this basis only that an adequate insight can be provided into result and financial position”.

The Council also states: „If the valuation is not based on replacement values (and, thus, is based on cost; insertion v.Br.), and the differences are material, the Council deems it desirable that, for arriving at a proper insight into the result as disclosed, the explanatory notes provide the following additional information: (i) the approximated depreciation charge for the year computed on the basis of replacement values, (ii) the effect on the result for the year of changes during that period in the prices for and costs of raw materials, etc. and, finally, (iii) to state in the notes the replacement value of the assets.” (Unquote)

It is self-evident that Dutch colleagues regard this report as a milestone in the development of the views on reporting. Categorically and unequivocally it states that

- (i) by means of the annual accounts the management is to render an account on its stewardship during an elapsed period, and
- (ii) the bases of valuation underlying that account be actual values, i.e. those on which the determination of the management's policy during the period should have been based.

In addition, the report holds a number of statements that are worthy of careful consideration. Below reference is made to two of these statements:

- (i) Provisions are felt to be permissible only if either they reflect the best possible estimate of uncertain obligations or the best possible approximation of current risks.
- (ii) The view that annual accounts should reflect a minimum position (i.e. neither the shareholders' net equity nor the result are lower than disclosed; a view that was often defended in pre-war years) is felt to be unacceptable. This implies that hidden and secret reserves as well as undisclosed movements thereof are also regarded as unacceptable. Thus far the report of the Council of Dutch Employers Organisations.

In the years 1945-1970 the Organisations of Dutch Employees directed their attention mainly to a reformation of Dutch Company legislation in a more comprehensive sense: the strive for representatives of employees in the Boards of Directors of enterprises, for Employees' Councils, for obligatory provision of certain information, etc. They were not specifically engaged in a revision of accounting principles.

It is in particular since the introduction of the Act on Annual Accounts of Enterprises, to be dealt with in the following section, that the Employees' Organisations have displayed a great activity.

2.4. The Act on Annual Accounts of Enterprises

The commissions issued by the Conference Committee states, *inter alia*, that

the paper is expected to give specific attention to „reporting by companies, listed in the stock market” and to „reporting by other companies with limited liability”. For the Dutch situation this distinction is irrelevant since, next to the public limited liability company, the act covers also the private limited liability company and the co-operative society.

Induced by the increasing significance attributed to the duty of management to report on their stewardship - see previous section - the Minister of Justice, in 1960, installed a Committee on Enterprise Legalisation. This Committee was charged with an investigation of whether the legal form of the enterprise was in need of a revision and requested to pay special attention to the management of large enterprises and to the public rendering of an account on such enterprises. The Committee reported in 1964. Chapter IV of its report contained a draft bill on annual accounts, accompanied by explanatory notes. All interested parties - employer's organisations, trade unions and the Netherlands professional organisation of accountants - published favourable comments. The bill was submitted to Parliament in 1968 and, after some amendments on points of minor interest, the act was passed in 1970. When compared with acts on the same subject in other countries, the Dutch Act on Annual Accounts of Enterprises appears to be rather unique.

Chapter I contains general principles only, to be complied with when preparing annual accounts. The most important general principles are:

Section 2: The annual accounts provide such information that a sound judgement can be formed on the financial position and result of the enterprise and, to the extent to which annual accounts permit, on its solvency and liquidity.

Section 3: The balance sheet and profit and loss account, together with the explanatory notes to these statements, reflect fairly and systematically the size and composition of the enterprise's financial position at the balance sheet date and the result for the period then ended.

And, last but not least, the section that in my opinion is the most essential one of the bill:

Section 5: The bases underlying the valuation of the assets and liabilities and the determination of the result comply with standards that are regarded as being acceptable in economic and social life (Note: not generally accepted, but acceptable).

In parts II and III of the Act, these general principles are elaborated in a number of specific statutory rules for the items to be stated in the balance sheet and profit and loss account, respectively.

Below, some sections are quoted with a view to demonstrating that, like acts in other countries, the Dutch act does not go into many details:

Part II, section 10: Of the fixed assets are stated separately (i) the business plant and premises, (ii) machinery and fittings, (iii) other durable business equipment and (iv) fixed assets, not used for business' activities. Note: no reference is made to specific principles for the valuation of fixed assets.

Part III, section 28: Information on the scale of the enterprise's business during the expired financial period is given in accordance with standards *that find acceptance in its branch of business.*

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The data are expressed in either absolute figures or ratios relating to the preceding financial year. The amounts of wages and social charges incurred in the expired financial year are also disclosed.

Part III, section 29: Information on the course of affairs of the enterprise during the expired financial year is given by (i) stating the business' result, (ii) the other gains and losses, (iii) the profit and loss before tax and (iv) the estimated amount of taxes relating to the profit. These figures are further specified and explained in accordance with standards *that find acceptance in the enterprise's branch of business*.

Thus, in respect of three points essential for the preparation of annual accounts, the legislator requires adherence to standards that are either regarded as being acceptable in economic and social life (*section 5*), or find acceptance in the enterprise's branch of business (*sections 28 and 29*). Naturally this gave rise to the question of which body is to judge what can be regarded as being acceptable or finding acceptance.

In the Explanation to the Act the Minister of Justice gives consideration to this question in the explanation to section 5 in which it is stated that the scientific pursuit of business economics is still too much on the move for an enactment of a specific method (or basis) of valuation. This, however, is not the only reason, for the Minister also states that, in his opinion, enactment of principles of valuation would bar the way to future developments. This is followed by a statement that is of primordial significance for the efficacy of the Dutch Act:

„It is expected that organised business life (i.e. organisations of employers and the trade unions), in co-operation with the organisation of register-accountants, will consider it their duty to make an inventory of the standards used in economic and social life and to test these standards against what, in their opinion, may be deemed to be acceptable in the present social system whilst also meeting the requirements of sections 2 and 3. The publications about acceptable bases resulting from these activities will fill a real need experienced by the boards of enterprises and may also serve as a guide for the Enterprise Chamber of the Court of Justice of Amsterdam when a suit about this is submitted to its judgement. In order to avoid a possible consequential rigidity, the organisations concerned will continually have to devote their attention to developments that present themselves in this field”. (Unquote)

In the official Memorandum in reply the Minister of Justice states in respect of what is laid down in sections 28 and 29 of the Act that he anticipates that „social and economic life together with accountancy” - thus referring to his explanation to section 5 - will elaborate the concept „standards that find acceptance in its branch of business”.

By this method the Dutch legislator has opted in essence for the policy underlying the preceding legislation in respect of annual accounts: The ultimate content of annual accounts is the outcome of consultations between the managing directors of an enterprise and its public accountant. The current situation differs from the one prior to 1940 in that now there is (i) an official body, comprising organised business life and the organisation

of accountants, that is to substantiate the accounting principles, and (ii) a section of the judiciary experienced in this field, viz. the Enterprise Chamber of the Court of Justice of Amsterdam, commissioned to deal with disputes about application or interpretation of the Act.

2.5. The administration of justice in matters concerning annual accounts

Supervision over the administration of the Act is exercised by two agencies. Section 8 (2) holds the first ruling relating thereto, reading:

„With the annual accounts is also submitted the opinion of the expert who, pursuant the sections . . . of the Code of Commerce is commissioned to make an examination of the annual accounts. If the annual accounts are not in compliance with the provisions of this act, the opinion states the extent to which this is the case”. According to Dutch legislation such experts are, next to the members of the Dutch professional organisation (N.I.v.R.A.), those members of foreign professional bodies who, by the Dutch authorities, have been permitted to give opinions in the fairness of annual accounts. Primarily, however, supervision of compliance rests with the immediate interested parties i.e. the shareholders or the members of a co-operative society. When it feels a need for doing so, the general meeting of shareholders is in a position to appoint an auditor by using the right to which that meeting is entitled under section 42a of the Code of Commerce. Parties other than the aforementioned ones are more interested in the enterprise's solvency and liquidity than in its income and net equity. It depends on the factual situation whether such others can be regarded as „interested parties”. It is to be expected that, generally, the Enterprise Chamber will consider employees and their trade unions to be interested parties. As far as has come to my knowledge, no jurisprudence about the concept „interested parties” has yet been developed. However, if a public interest is served by a revision of annual accounts and interested parties take no action, the public prosecutor will exercise his competency.

In the case of a complaint, both parties involved may be assisted by experts. The expert knowledge of the Enterprise Chamber is strengthened by two expert Counsellors, one of whom is a retired public accountant. The Enterprise Chamber is qualified either to annul passed annual accounts or to give an order about the arrangement of the accounts.

In Anglo-American Law such order is well-known as „injunction”. Non-observance of an order of the Chamber is an offence that is declared punishable. According to section 33 of the Act, the Enterprise Chamber gives no verdict until the expert charged with the examination of the annual accounts has been heard or at least has been summoned to be heard.

A case will be tried in secret session; judgement, however, is dispensed in open court.

I am not in a position to report on the functioning of this jurisdiction because no jurisprudence has yet been published. However, the fact that legal actions must be instituted within a period of two months from the passing or approval of the annual accounts gives rise to the assumption that no material disputes are now being dealt with by the Enterprise Chamber.

Two reasons may be advanced in support of this assumption, viz.:

- (i) the Act on Annual Accounts of Enterprises is satisfactorily being adhered to, and
- (ii) interested parties may not yet have found the way to the Enterprise Chamber. According to a recent investigation of annual accounts for the year 1971 (or 1970/71 as the case may be) of 129 listed companies in the fields of industry and trade, instituted by the Nederlands Instituut van Registeraccountants, there is reason to conclude that, generally, the Act is properly being observed.

2.6. Reporting for tax purposes

Under the conditions prevailing in the Netherlands, this subject has no connection whatsoever with efficacious principles of accounting underlying the accounts rendered on their stewardship by the management of enterprises. First of all, the Dutch tax authorities avail of a method of their own for determining income and net equity for taxation purposes. Secondly, corporation income tax in the Netherlands is not levied for budgetary purposes alone, but it also serves as a tool in support of tempering cyclical economic fluctuations. In periods of recession for instance, next to investment grants, special facilities are afforded regarding the computation of depreciation charges. Thus, as a rule, financial statements prepared as annexes to a tax return are not in compliance with the requirement laid down in section 3 of the Act: „... reflects fairly and systematically ...”

3 Current trends and expectations and critical comments on the present situation

In section 2.4. above it is explained that, generally, the requirements laid down in the Act are of a general nature only.

In three essential respects the rulings will have to be amplified by the organisations of employers and the trade unions, in co-operation with the organisation of register-accountants. Thus, this important task is delegated to the parties involved, who, since 1970, work together in what in the Netherlands is known as the „Tripartite Committee”. The procedure adopted by this committee is as follows:

On each subject an organ of one of the three constituent bodies - up till now as a rule the committee „annual accounts” of the Nederlands Instituut van Registeraccountants - prepares a first draft for discussion in the „Tripartite Committee”. Nearly always insertion of a large number of amendments precedes the passing of each draft. After a number of subjects have been dealt with in this manner, the drafts are bundled into an Exposure Draft entitled „Considerations on the Act on Annual Accounts of Enterprises”. Then, during some time, all interested parties are afforded an opportunity to inform the Tripartite Committee of their comments. After having considered these comments the draft is passed as a Statement of the Committee. The first Exposure Draft was published in December 1971; the first Statement covers the following subjects:

- (i) Introduction (ii) Participations (iii) Long term investments (iv) Stocks

(v) Long term and short term loans, liabilities. The second Exposure Draft was published in the course of 1973. Comments received thereon are now under discussion.

As referred to above, section 5 of the Act states that the bases of valuation shall: „comply with standards that are regarded as acceptable in economic and social life”. From various comments on the bill it appeared that this wording caused regret. Many persons would have preferred a more explicit wording, e.g. „principles of valuation that are regarded as acceptable according to current conclusions reached in the field of business-economics”. The legislator, however, has not adopted this recommendation. Needless to say that this has given rise to material problems for the Tripartite Committee. During the preparation of the first Exposure Draft protracted discussions took place on the question of whether the Tripartite Committee should express its preference for determination of income and net equity on the basis of current values or whether both current value accounting and historical cost accounting could qualify as being „acceptable in economic and social life”. With a view to the fact that in the Netherlands, too, there is still a large number of enterprises of which the annual accounts are prepared on the basis of historical costs, it has been decided to also regard such accounts as being acceptable, albeit with the explicit restriction that in the case of a material difference between the value of assets on the bases of current value and historical cost, respectively, this acceptance is subject to the fact of this difference being referred to in the explanatory notes.

It may be expected that this policy will also be followed when, eventually, the Tripartite Committee will deal with the value of used-up productive capacity as a factor relevant to the determination of income. I need hardly say that I for one regard this decision as a matter for great regret.

Those who have read my paper for the 10th International Congress of Accountants in Sydney, will know why I am convinced that preparation on the basis of current values is a prerequisite for arriving at annual accounts that give a fair presentation of the stewardship of the enterprise's management during the elapsed period.

Apparently, the road to be covered for arriving at a general acceptance of current values as a basis for the preparation of annual accounts is still a long one in the Netherlands as well.

Maybe that the fact of actual value accounting and general price level accounting now having been put on the agendas of both the International Accounting Standards Committee and the U.E.C. will be conducive to some shortening of this road.